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USDA FOR FAS/CMP HOWARD WETZEL

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TAGS: [EAGR](#) [ETRD](#) [ECON](#) [AR](#)
SUBJECT: GOA SUSPENDS BEEF EXPORTS AS AN INFLATION-FIGHTING
MEASURE

REF: A. 05 BUENOS AIRES 1017
[1](#)B. BUENOS AIRES 0369
[1](#)C. 05 BUENOS AIRES 2408

Classified By: AMBASSADOR LINO GUTIERREZ, FOR REASON 1.4 (D)

Summary

[1](#)1. (C) The GOA announced a 180-day suspension of beef exports in an effort to stem price increases. Exports to the EU that go toward fulfilling the Hilton Quota and those governed by bilateral agreements will not be affected. The suspension, described by a Cargill Argentina executive as "brutal," is the latest in a series of GOA anti-inflation measures that have had limited success to date. If maintained, the suspension will mean layoffs in the thousands and lost export revenues that could reach USD 1 billion for the beef industry. If sustained over six months, this reckless act will frighten potential investors and cost the GOA a significant loss of export tax revenue, but President Kirchner apparently believes holding inflation in check and providing lower-cost beef to his constituents is worth the price. The one hope for the industry is that Kirchner will recognize with time his mistake and find a face-saving way to lift the ban before damage grows severe. End Summary.

Beef Exports Suspended for 180 Days

[1](#)2. (U) The GOA announced March 8 the suspension for 180 days of most beef exports. President Nestor Kirchner reportedly decided upon the measure himself, with an eye to stemming longstanding wholesale beef price increases that had spiked by almost 18 percent over the previous week. Kirchner was quoted in the local press as saying: "Beef must first be for Argentines. We are not interested in exporting at the expense of the people. It's good to export, it's good to make money, but first we will sell beef at an appropriate price." Economy Minister Felisa Miceli explained that the 28,000-ton quota of high-quality cuts destined for the EU under the Hilton Quota would be unaffected by the suspension, as would beef exports "specifically covered by bilateral agreements," a qualification many analysts believe refers to exports to Venezuela.

A Brief History

13. (U) Beef exports have taken off in recent years, rising from a value of USD 594 million in 2003 to USD 1.02 billion in 2004 to a record USD 1.35 billion in 2005. That stellar export performance played a significant role in helping Argentina recover from its 2001-2002 economic crisis, especially as the GOA now takes 15 percent of each dollar of beef exports via an export tax. As inflation has become a principal focus of the GOA over the past few months, however, GOA officials have made numerous public statements scapegoating exports of all types for rising domestic prices (Reftel A).

14. (U) Regarding beef specifically, the GOA has taken a number of steps to beat back rising prices. It signed an agreement with meat packers, supermarkets, and cattle marketers in September 2005 to freeze prices through December. Next came a GOA resolution mandating that the weight of cattle brought to slaughter rise incrementally (from 260 to 300 kilograms over the six months ending in May 2006), with the idea that heavier cattle will yield more product and thereby contribute to lower consumer prices. The GOA then raised export taxes from 5 percent to 15 percent and suspended an export rebate program that benefited beef exporters in November 2005. The GOA also required beef exporters to register with the government as a prerequisite for exporting, which many exporters took as a threat.

Impacts

15. (C) Cargill Director of Institutional Relations Hugo Kranjc told the Embassy's Economic and Agricultural counselors March 9 that Kirchner had taken the "most brutal" measure possible, and said that if exports are suspended for 180 days exporters will lose between USD 800 million and USD 1 billion in export revenue. Kranjc also estimated that the export suspension would force five to ten thousand employees out of work. Cargill is the only major U.S. exporter of beef from Argentina, and Cargill Beef Exports Manager Joseph Dollins told Econoff that 75 percent of Cargill's beef business is geared toward exports. He said the 180-day suspension would "cripple the company's beef business in Argentina." Dollins reported that company directors had discussed cuts of as many as 1,200 of Cargill's 1,500 beef-processing jobs as a result of the measure. Kranjc reported that the industry had anticipated further steps against beef exports, but that the diversity of players (there are 14 relevant trade associations) prevented agreement on a plan to preempt the GOA. He said that the industry's attempts to negotiate with the GOA, which included proposals to reduce exports or mitigate their impact on domestic prices, were rejected by Secretary of Agriculture Miguel Campos.

16. (C) There is evidence that Kirchner was improvising, or had at least failed to consider all of the possible consequences, when he decided to halt beef exports March 8. In comments at the FeriAgro agricultural fair earlier that day, Miceli told cattlemen that the GOA was not contemplating "radical measures" against beef exports, only to change her public stance after a meeting with Kirchner that evening. The export suspension will hit the GOA in its pocketbook, as a 180-day ban represents an estimated loss to the GOA of USD 125 million in export tax revenue over the next six months. The resultant layoffs will increase chances of social unrest, and will be a black eye to a government that has boasted that unemployment will soon drop into single-digit territory. Cargill's Dollins said export earnings have allowed beef exporters to keep domestic prices relatively lower, a benefit that will now be lost. The GOA voiced its displeasure when large amounts of grazing land were converted to soybean production during the soybean boom of recent years, but a

suspension of beef exports is exactly the sort of measure that could accelerate that process. Argentina's international reputation as a reliable supplier, already damaged by the GOA's coverup of the foot-and-mouth outbreaks in 2000-2001 (Reftel B) and the 2004 and 2005 cuts of natural gas exports to Chile, will suffer further. Israel and other Middle East countries that are major consumers of Argentine beef will be particularly affected, as Argentina's large Kosher and Halal processing capability will be difficult to replace. Finally, the export suspension will frighten potential investors, a blow to a government that has been trying to woo investment (Reftel C).

Comment

¶7. (C) Argentina's per-capita beef consumption is among the world's highest, and beef carries a major weight in the consumer basket of goods -- a key component used by the GOA to measure inflation. Kirchner is determined to control inflation, and the first quarter will set the tone for the rest of the year. Kirchner has also repeatedly demonstrated a will to crush defiance, and beef producers have been among the only groups to openly challenge the GOA on price controls. Those factors are coupled in this case with Kirchner's typical approach to negotiations, which is to bludgeon his opponent into submission before sitting down to reach an agreement. There is a possibility that Kirchner imposed the export suspension as a negotiating tactic. An indication of that came in the form of a March 9 statement by Agustin Rossi, head of the ruling party (Peronist) bloc in the Argentine Chamber of Deputies, that the GOA could be flexible if beef producers develop a plan to contain prices. If so, the suspension could last fewer than 180 days and have fewer negative effects. In any event, Kirchner knows that despite the negative economic consequences arising from

halting beef exports, the forceful gesture will likely boost his already-high public approval rating. It will also advance the GOA's goals by serving as a strong warning to producers and vendors in other sectors to not oppose the government's price control efforts. Politics drives economics in Argentina. Being a better politician than economist has not hurt Kirchner yet.

¶8. (U) To see more Buenos Aires reporting, visit our classified website at:
<http://www.state.gov/p/wha/buenosaires>.
GUTIERREZ